

Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 NEAE-00 SOE-02 AID-05 CEA-01
CIAE-00 COME-00 DODE-00 EB-08 DOE-15 H-01 INR-10
INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-05 ICA-11
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P R 101113Z APR 78
FM AMEMBASSY TEHRAN
TO SECSTATE WASHDC PRIORITY 7777
INFO AMEMBASSY ABU DHABI
AMEMBASSY DOHA
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LONDON
AMEMBASSY MANAMA
AMEMBASSY MUSCAT

C O N F I D E N T I A L TEHRAN 3404

E.O. 11652: N/A
TAGS: ENRG EINV TC IR
SUBJ: TAX AND ROYALTY PROBLEM FOR CRESCENT PETROLEUM

REF: A. TEHRAN 3024, B. STATE 76443, C. STATE 44034
D. TEHRAN 1761, E. ABU DHABI 0749 AND PREVIOUS

1. EMBASSY'S PETOOF HAD LONG DISCUSSION WITH KHALILI AND FARID (BOTH OF MODIR'S STAFF) YESTERDAY ABOUT PROBLEMS INVOLVING CRESCENT PETROLEUM, SHARJAH, AND NIOC. ALTHOUGH NIOC OFFICIALS WERE UNWILLING TO TALK IN VERY SPECIFIC TERMS ABOUT THE PROBLEM OR ABOUT NIOC'S PRECISE INVOLVEMENT OR POSITION, IT WAS MADE ABUNDANTLY CLEAR THAT NIOC HAS DECIDED TO TAKE A VERY HARD LINE.

2. NIOC'S BASIC POSITION IS THAT THE 77/14.5 PERCENT
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TAX AND ROYALTY RATES, INCLUDING THEIR RETROACTIVE APPLICATION TO JULY 1, 1976, ARE JUSTIFIED AND WILL STILL ENABLE CRESCENT TO EARN A DECENT RETURN. KHALILI SHOWED PETOFF A THICK FILE WHICH HE SAID WAS A NIOC ECONOMIC ANALYSIS WHICH DEMONSTRATED THAT THE NEW TERMS WOULD ALLOW CRESCENT TO MAINTAIN A HEALTHY PROFIT MARGIN AND CASH FLOW

SITUATION.

3. OTHER BASIC POINT MADE BY NIOC OFFICIALS IS THEIR BELIEF THAT CRESCENT HAS BEEN AND WILL, IF PERMITTED, CONTINUE TO DRAG ITS FEET. NIOC IS OBVIOUSLY INFLUENCED BY THE EXPERIENCE IT HAD IN 1977 IN NEGOTIATIONS OVER ADOPTION OF HIGHER TAX AND ROYALTY RATES WITH ITS FOREIGN PARTNERS IN THREE OFF-SHORE JOINT VENTURES (IPAC, LAPCO, AND IMINOCO). NIOC OBVIOUSLY PRIDES ITSELF IN HAVING SUCCESSFULLY PREVAILED UPON THE SECOND PARTNERS IN IPAC, LAPCO, AND IMINOCO TO ACCEPT TAX RATE OF 85 PERCENT (65.75 PERCENT PREVIOUSLY) AND ROYALTY OF 20 PERCENT (16.67 PERCENT PREVIOUSLY). MOREOVER, THE HIGHER RATES WERE APPLIED RETROACTIVELY TO NOVEMBER 1974. KHALILI SAID THAT NIOC, ON THE BASIS OF ITS ANALYSIS OF CRESCENT SITUATION, HAD DECIDED THAT CRESCENT WAS ENTITLED TO THE RELATIVELY MORE GENEROUS TERMS (COMPARED WITH THE IRANIAN JOINT-VENTURE AGREEMENTS RENEGOTIATED IN 1977). BECAUSE CRESCENT'S SMALLER PRODUCTION AND LIMITED REMAINING RESERVES.

4. KHALILI GAVE PETOFF THE IMPRESSION THAT NIOC WANTS CRESCENT TO CONTINUE OPERATIONS AND THAT, IN FINAL ANALYSIS, CRESCENT WILL FIND IT NECESSARY AND STILL PROFITABLE TO ACCEPT NEW TERMS. THE ONLY AREA

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IN WHICH KHALILI SUGGESTED THERE WAS ROOM FOR NEGOTIATION WAS OVER THE PERIOD IN WHICH THE RETROACTIVE PAYMENTS WOULD BE MADE.

5. EVEN HAD NIOC BEEN WILLING TO PROVIDE EMB WITH COPY OF THEIR ECONOMIC/TECHNICAL ANALYSIS, WE WOULD NOT HAVE BEEN ABLE TO PROPERLY EVALUATE IT. SINCE NIOC HAS DONE ITS HOMEWORK, AND SINCE WE ARE NOT IN A POSITION TO CRITIQUE THEIR ANALYSIS, WE DO NOT THINK THAT IT IS WARRANTED OR WOULD BE PRODUCTIVE TO ASK NIOC TO BACK-OFF. GIVEN THE COMPLEXITIES INVOLVED, WE ARE INCLINED TO BELIEVE THAT SUBMISSION TO ARBITRATION MAY BE THE MOST DESIRABLE COURSE OF ACTION.

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